

**BEFORE THE POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001**

**Notice of Market-Dominant
Price Adjustment**

Docket No. R2012-3

**JOINT COMMENTS OF THE DIRECT MARKETING ASSOCIATION, INC.,
THE MAILING AND FULFILLMENT SERVICE ASSOCIATION,
THE MAJOR MAILERS ASSOCIATION, THE NATIONAL ASSOCIATION
OF PRESORT MAILERS, THE NATIONAL POSTAL POLICY COUNCIL,
AND THE PARCEL SHIPPERS ASSOCIATION
(November 7, 2011)**

By Order No. 921, dated October 21, 2011, the Postal Regulatory Commission invited comments on the United States Postal Service's October 18, 2011 Notice of Market-Dominant Price Adjustment (Notice). The Direct Marketing Association, Inc. (DMA), the Mailing and Fulfillment Service Association (MFSA), the Major Mailers Association (MMA), the National Association of Presort Mailers, the National Postal Policy Council (NPPC), and the Parcel Shippers Association (PSA), respectfully submit these comments in response to Order No. 921.

As part of the fundamental compromise of the 2006 postal reform law the Postal Service was granted expanded pricing flexibility in exchange for the stability and predictability promised to mailers under a CPI price cap. The appropriate use of that pricing flexibility is an essential component of any long-term strategy to preserve the value of mail. The Postal Service can and should use its pricing flexibility to stem mail volume erosion and stimulate volume growth by minimizing total costs to mailers. Regrettably, certain prices proposed in the most recent Notice of Price Adjustment for Market Dominant Products (Notice) fail to do this.

A number of the proposed price adjustments undercut the efficiency and long-term sustainability of the postal system. Worse, the proposed price adjustments suggest a trend of “pricing to excess capacity.” In its Notice the Postal Service says:

[T]he **Postal Service currently has excess mail processing capacity and can absorb extra workload** in the incoming mail processing operations. By concentrating as much volume as possible in those operations, efficiency may be improved.

Notice at 35 (emphasis added). This rationale is offered in discussion of the proposed price adjustments for First-Class Mail Presort Letters. The rate design for that product encourages the shift of more finely presorted 5-Digit Automation Letters back upstream, soaking up excess capacity, and thereby requiring an additional sort *by the Postal Service*.

But the above rationale, constructing prices to increase work performed by the Postal Service, could be applied to virtually all mail classes, products and rate categories. It is always possible to construct prices to discourage worksharing and increase work performed by the Postal Service.

In the last price adjustment the Postal Service pursued a similar, inefficient approach when it significantly reduced the 5-Digit presort discount for Standard Mail machinable parcels.¹ In that case the 5-Digit presort prices for Standard Mail machinable parcels were reduced to reflect less than half of the measured costs avoided by mailer worksharing. These prices discouraged the preparation of 5-Digit presort in favor of NDC presort even when the private sector could perform the sortation at half the cost. By extension, this discouraged DDU and DSCF entry because DDU and DSCF entry of machinable parcels requires 5-Digit presort.²

¹ See PRC Dkt. No. R2011-2, PRC-R2011-2-LR-3, PRC CAPCALC-STD-R2011-2.xls, “L-F-P Current Prices” and “L-F-P New Prices.”

² Comments filed in the R2011-2 proceeding voiced similar objections: “With this proposal, the Postal Service without warning has changed direction 180 degrees, a complete about face, with respect to its price signals for worksharing. The Postal Service’s proposal has chosen to punish, without reasonable

Private sector sorting and transportation were discouraged by these prices in favor of less efficient Postal Service operations. The Commission allowed the prices in that case, but “encourage[d] the Postal Service to maintain rate differentials in such a way that encourages the most efficient preparation . . . thereby minimizing the Postal Service’s processing and transportation costs.”³

A shift in focus from price signals designed to drive the lowest combined costs to prices geared to promote the use of excess capacity is problematic. First, it is a substantial and inappropriate departure from the long-standing pricing policy that has resulted in enhanced economic efficiency for both the mailing industry and the Postal Service.⁴ Second, it suggests the use of the Postal Service’s monopoly position to engage in a form of exclusionary pricing – discouraging the most efficient providers from performing upstream services (e.g., sortation and transportation) at lower cost. Prices that encourage work to be performed by the least cost provider (i.e., whether that provider be a mailer, mail service provider, or the Postal Service) are efficient and allow the Postal Service to size its infrastructure appropriately. In contrast, inefficient prices designed to make work for the Postal Service will result in too large a network, higher costs to mailers, and accelerated volume declines. They will exacerbate the financial crisis facing the Postal Service mailing industry.

The Postal Service has publicly acknowledged the problem of excess capacity in its network.⁵ This problem should be addressed by working with postal

explanation (because there could be none), mailers who in reliance on past price signals and guidance from the Postal Service have invested significant resources to prepare mail in a way that makes it most efficient for the Service to handle.” Dkt. No. R2011-2, Comments of Parcel Shippers Association and Direct Marketing Association, Inc. on the Planned Price Adjustments for Market Dominant Products and Related Mail Classification Changes (Feb. 2, 2011) at 2-3.

³ See Dkt. No. R2011-2, PRC Order No. 675 (Feb. 16, 2011), at 33.

⁴ See R. Cohen, M. Robinson, J. Waller, and S. Xenakis, *Worksharing: How Much Productive Efficiency, at What Cost and at What Price?*, M. A. Crew and P.R. Kleindorfer (Eds.), *Progress Toward Liberalization of the Postal and Delivery Sector* (Springer 2006).

⁵ See Postal Service “Workforce Optimization” Discussion Draft (Industry Alert dated Aug. 12, 2011), at 2.

stakeholders, the Congress, and the Commission to right-size the network to reflect current volume realities. Prices designed to discourage efficient worksharing in order to make use of otherwise excess capacity are not the answer.

Respectfully submitted,

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